

**REPORT OF THE AUDIT OF THE
WAYNE COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
June 16, 2007 Through May 30, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WAYNE COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
June 16, 2007 Through May 30, 2008

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for Wayne County Sheriff for the period June 16, 2007 through May 30, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,290,430 for the districts for 2007 taxes, retaining commissions of \$219,363 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,065,396 to the districts for 2007 Taxes. A refund of \$179 is due to the Sheriff from a taxing district.

Report Comments:

- The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting Systems
- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2007 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	9
COMMENTS AND RECOMMENDATIONS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Gregory Rankin, Wayne County Judge/Executive

Honorable Charles L. Boston, Wayne County Sheriff

Members of the Wayne County Fiscal Court

Independent Auditor's Report

We have audited the Wayne County Sheriff's Settlement - 2007 Taxes for the period June 16, 2007 through May 30, 2008. This tax settlement is the responsibility of the Wayne County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Wayne County Sheriff's taxes charged, credited, and paid for the period June 16, 2007 through May 30, 2008 in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 6, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Gregory Rankin, Wayne County Judge/Executive

Honorable Charles L. Boston, Wayne County Sheriff

Members of the Wayne County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting Systems
- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

August 6, 2008

WAYNE COUNTY
CHARLES L. BOSTON, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
June 16, 2007 Through May 30, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 666,152	\$ 923,788	\$ 2,174,721	\$ 712,093
Tangible Personal Property	133,697	136,264	178,184	174,091
Intangible				44
Fire Protection	3,540			
Increases Through Exonerations	95	123	275	2,016
Franchise Taxes	83,378	90,141	118,161	
Additional Billings	70	94	208	77
Oil and Gas Property Taxes	703	952	2,328	752
Limestone, Sand and Mineral Reserves	165	224	459	177
Bank Franchises	50,776			
Penalties	5,794	7,801	17,851	6,178
Adjusted to Sheriff's Receipt	(36)	30	(1)	(7)
Gross Chargeable to Sheriff	944,334	1,159,417	2,492,186	895,421
<u>Credits</u>				
Exonerations	7,713	9,064	16,553	9,775
Discounts	13,915	16,932	37,123	13,883
Delinquents:				
Real Estate	3,974	5,527	12,832	4,229
Tangible Personal Property	1,221	1,082	1,640	600
Oil	2	2	5	1
Franchise Taxes	12,283	13,581	18,991	
Total Credits	39,108	46,188	87,144	28,488
Taxes Collected	905,226	1,113,229	2,405,042	866,933
Less: Commissions *	38,759	47,270	96,202	37,132
Taxes Due	866,467	1,065,959	2,308,840	829,801
Taxes Paid	865,554	1,064,758	2,306,274	828,810
Refunds (Current and Prior Year)	913	1,201	2,745	991
(Refund Due Sheriff)			**	
as of Completion of Audit	\$ (0)	\$ (0)	\$ (179)	\$ (0)

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY
CHARLES L. BOSTON, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES
For The Period June 16, 2007 Through May 30, 2008
(Continued)

* Commissions:

10% on \$10,000	\$	1,000
4.25% on \$2,858,387	\$	121,481
4% on \$2,422,043	\$	96,882

** School Taxes:

Common School	\$	<u>(179)</u>
Refund Due Sheriff	\$	<u><u>(179)</u></u>

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT

May 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Wayne County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT
May 30, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Wayne County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 17, 2007 through May 30, 2008.

Note 4. Interest Income

The Wayne County Sheriff earned \$1,765 as interest income on 2007 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Wayne County Sheriff collected \$30,733 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Wayne County Sheriff collected \$593 of advertising costs and \$3,155 of additional fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the additional fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gregory Rankin, Wayne County Judge/Executive
Honorable Charles L. Boston, Wayne County Sheriff
Members of the Wayne County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Wayne County Sheriff's Settlement - 2007 Taxes for the period June 16, 2007 through May 30, 2008 and have issued our report thereon dated August 6, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wayne County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Wayne County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Wayne County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting Systems
- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the following to be a material weakness:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Wayne County Sheriff's Settlement - 2007 Taxes for the period June 16, 2007 through May 30, 2008 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Wayne County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 6, 2008

COMMENTS AND RECOMMENDATIONS

WAYNE COUNTY
CHARLES L. BOSTON, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period
June 16, 2007 Through May 30, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Should Strengthen Internal Controls Over Computerized Accounting Systems

During our review of internal controls over receipts and disbursements we noted the following control deficiency with regard to the Sheriff's computerized accounting software. We consider the control deficiency to be a significant deficiency in internal control over financial reporting.

- The Sheriff's office does not have a computer policy and procedures manual available to all computer operators.
- The Sheriff's office does not provide training for both general computer operations and software packages for new computer operators; no refresher courses are provided.
- Computer passwords are not changed at regular intervals.
- Computer modem is not logically turned off or physically disconnected when not in use, in order to prevent unauthorized access.
- The Sheriff's office does not have procedures in place in case of virus infection.

We recommend the Sheriff's office strengthen internal controls over computerized accounting systems in order to prevent unauthorized access.

Sheriff's Response: None.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Segregation of duties over receipts and disbursements, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties, or can help to prevent inaccurate financial reporting.

A lack of adequate segregation of duties exists over the receipt and disbursement functions of the Sheriff's office. The Sheriff's office employs two office deputies. Both deputies open incoming mail, collect cash, prepare the daily checkout sheet, post to the receipts ledger, as well as prepare the daily bank deposits. Both office deputies also make purchases, post to the disbursements ledger, and sign and issue checks.

Because the two office deputies handled all receipt and disbursement functions, the following occurred:

1. The Sheriff did not sign any checks and, therefore, no payment approval process occurred.
2. Sheriff did not approve journal entries that were not standard entries.
3. Sheriff did not consistently sign and approve monthly tax reports.

WAYNE COUNTY
CHARLES L. BOSTON, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period June 16, 2007 Through May 30, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS:

(Continued)

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
(Continued)

To adequately provide protection to employees in the normal course of performing their duties, or prevent inaccurate financial reporting, we recommend the Sheriff separate the duties involving collection of cash, deposit of cash, disbursement of cash, and reconciliation of cash. If, due to limited staff size, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions or the Sheriff.

Sheriff's Response: None.

